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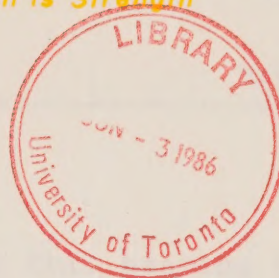
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national farmers union

*In Union Is Strength*



National Farmers Union

Submission

to the

Special Committee

on

The Pricing of Domestic Wheat

presented at

Saskatoon, Sask.

May 6, 1986







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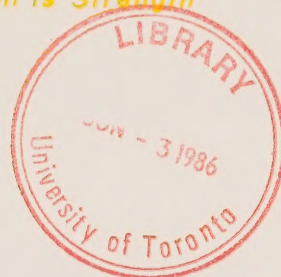
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250C - 2ND AVENUE SOUTH  
SASKATOON, SASK. S7K 2M1  
TELEPHONE (306) 652-9465



**national farmers union**

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INTRODUCTION:

We welcome the opportunity presented by this hearing to convey our policy views on the subject of domestic wheat prices and parity prices.

The NFU is a grassroots farm family organization incorporated by a special Act of Parliament assented to June 11, 1970. The primary function of our organization is to serve as the vehicle which enables our members to develop policy positions on all aspects of public policy which affect us economically or socially.

This approach to organizing farmers is supported by our members because we believe farmers must learn to live with one another rather than off one another. By joining together as farmers, it becomes possible to take a broader approach toward understanding the specific problem areas of each commodity sector and developing broad policy proposals that minimize conflicts of interest and harmonize the relationships between farmers.

OUR CHEAP FOOD POLICY:

The unrelenting pressure and drive by both government and industry toward applying greater technological innovation and economy of scale in food production threatens to submerge the vast majority of present day farm units into the backwater of the agri-food industry over the next two decades. As the economy of scale has been applied, the margin of return on each unit of production has often narrowed. High interest rates and unstable product prices have made many of our most production-efficient farm units candidates for bankruptcy.

The mileposts of our national agri-food strategy have long





been staked out - the 1970 Task Force Report - "Agriculture in the Seventies", followed by several discussion papers such as the Food Systems Branch "Objectives and Goals for the Canadian Meats Systems" (1974); the "10 DM" discussion paper (1976); "A Food Strategy for Canada" (1977); "Canada's Agri-Food System" (1981); "Challenge for Growth ..." an agri-food strategy for Canada - all serve as examples.

Canada's agri-food strategy was outlined by D.D. Hedley and W.J. Anderson\* in the following terms:

"With respect to the domestic development of agriculture, the fortunes of the Canadian agri-food sector are inextricably tied to macro-economic international variables over which Canada can exercise only a minor influence. The Canadian agri-food sector is exceedingly vulnerable to policy decisions taken abroad, relative currency values, interest rates, and the effects of the physical environment on world crops and yields. But Canadian policy decisions and production variabilities are barely discernible influences in the context of the global food economy.

"The main thrusts of agri-food policy are market development, resource productivity, international development cooperation, and limited price intervention. The purpose of domestic policies and programs is to enable private operators under competent management to earn normal profits and rates of return to return to resources, and thereby ensure an adequate supply of good quality food for Canadian consumers and for export.


"In the matter of Canadian agri-food price policy there are three overriding considerations. First, prices of grains and oilseeds are major determinants of food prices in Canada. Second, such large amounts of those commodities are exported that external prices largely determine domestic prices. In fact, agricultural export sales are equivalent to one-half the value of farm cash receipts and three-fifths of agricultural export revenue from sales of grains and oilseeds. It follows that export prices of grains and oilseeds determine not only the prices of cereal products in Canada but strongly influence those of animal products, since grains and oilseeds are significant inputs for animal production. And the third consideration is that price and output variability are both high and the two seldom offset each other. The resulting high level of income instability makes stabilization a major policy consideration.

"The international market also influences Canadian agricultural and food prices by virtue of the fact that the value of Canada's imported food commodities amounts to about one-half that of food exports. Moreover, Canada is both a major exporter and importer of production and processing equipment used by the agri-food sector and of inputs such as fertilizers, petroleum, and pesticides.

"These links cause prices outside the borders of Canada to exert a dominating influence on agricultural prices within Canada and limit Canada's ability to create an independent agri-food price policy. The exceptions to full acceptance of the dominance of foreign prices are Canadian policies for stabilization and supply management, the Canadian Wheat Board monopoly on export sales of wheat, oats, and barley, and the Board's power to issue import permits for those commodities.

"The purpose of stabilization is to protect producers against those price

\* Based on a paper prepared by D.D. Hedley and W.J. Anderson for Task Force Meeting, "Food and Agricultural Policies: Issues, Instruments and Analysis", International Institute of Applied Systems Analysis, Vienna, June 8-10, 1983.



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variations which play havoc with the cash flow of farm business and thereby threaten the viability of efficient enterprises. However, stabilization measures have been designed so that they are oriented to market prices and neutral with respect to resource allocation.

"Supply management, on the other hand, with import protection for dairy and poultry products, enables the formation of administered domestic prices insulated from direct price forces in foreign markets.

"Thus supply management of dairy and poultry products is the feature of Canadian price and marketing policy that clearly expresses Canada's determination not to allow her economy to be dominated by prices. However, the strong influence of external grain prices extends even to the administered prices of commodities under supply management. Although protected by import quotas from direct international competition, these commodities are priced by cost-of-production formulas in which feedgrain and oilseed prices are major components.

"Although the Canadian Wheat Board controls all exports and imports of wheat, oats, and barley, these powers give the Board little leverage to maintain farm prices independently of external prices. The reason is that Canada's exports of these grains are so small relative to the world grain trade that Canada is forced to be a price taker in export trade, and world production is so large relative to Canadian production that to maintain farm prices inconsistent with external prices would be fiscally impractical. An attempt to hold domestic bread wheat prices within a narrower band than international prices ceased in 1978, largely because of the above reason. Domestic feedgrain policy is directed principally toward ensuring accessibility of feedgrains throughout Canada at equitable prices for the livestock sector rather than insulating domestic prices from international price levels.

"Intervention in pricing is, however, overshadowed by the two main thrusts of domestic agri-food policy, namely market development and resource productivity. Reliance on these two thrusts is based on cautious optimism that the world recession will run its course. When that occurs, the strategy will be to allow demand generated by expected population and income growth to expand markets for agri-food commodities."

The economic circumstances confronting farmers today have deteriorated substantially since the Hedley-Anderson paper was presented.

1. The vulnerability of the Canadian grain sector to foreign policy decisions has been brought sharply into focus by the recent passage of the U.S. Farm Bill.

2. Although Canadian consumers still enjoy adequate supplies of good quality food, private farm operators, regardless of their levels of competence, have experienced negative profits and rates of return to resources. High interest rates have contributed very materially to this problem.

3. Increasing income instability has sharply brought into focus the need for growing amounts of income stabilization. Consider-





ation may now need to be given for a redirection of stabilization policy toward the acceptance that such measures may not always be oriented toward market prices and "neutral" with respect to resource allocation. It is fairly evident that supply managed marketing programs that have provided farmers with the security of formula established prices have been better able to weather the current farm income crisis than have products produced and sold at market oriented prices.

The evidence that consumers and the commercial agri-food sector have benefitted in a very substantial way from the market-oriented approach in pricing farm products is evident from the level of stabilization payments the government has made on various products as as outlined in Table 1.

The level of stabilization payments reported for commodities other than dairy products are based on a formula calculated to raise farm prices to 90% of the previous 5 year average market prices. In short, current stabilization policy essentially guarantees diminishing returns to producers.

The pursuit of a stabilization policy providing for diminishing returns to producers is intended to eliminate from production those farmers regarded as "inefficient".

Those remaining in production of a particular product may be prompted by narrower margins of return to expand production of the product by the application of more technology. The alternative is to quit producing it altogether and seek other production alternatives.

More often the alternative income choice of farmers is to seek off-farm employment. The effect of this "choice" is that Canadian agriculture is increasingly becoming a part-time industry. In a very subtle way, food production is being subsidized by off-farm earnings. Thousands of farmers today have no alternative option for retaining their farm equities.

The extent to which off-farm employment has supplemented the income of farmers is very clearly illustrated in Table 2. A Statistics Canada analysis of farm tax filers' income for the year 1983 indicates that 94.7% of 436,110 farm tax filers reported receiving off-farm





TABLE 1:

Agricultural Stabilization Board Payments - By Commodity\*

	<u>1980-1981</u>	<u>1981-1982</u>	<u>1982-1983</u>	<u>1983-1984</u>	<u>1984-1985</u>
Apples	\$ (437)	\$ 16 067 862	\$ 1 230 497	\$ 20 379 377	\$ 13 831
Apricots	-	-	-	126 460	-
Barley	4 389	147	-	-	-
Cabbages	-	-	-	2 000 000	4 576
Carrots	-	-	-	4 700 000	83 244
Cattle	-	(10 382)	-	-	-
Coloured Beans	-	-	-	-	3 673 805
Corn	31 112	14 749	22 086	1 016 481	12 533 716
Cow-Calf	(216)	-	(103)	-	(308)
Cucumbers	784 735	714 697	288 724	4 382 774	7 669
D-Cows	(20)	(355)	-	-	-
Hogs	41 281 496	107 277 121	455 000	14 034	56 565 301
Lambs	-	-	456 057	216 349	14 067
Onions	675 415	(52 830)	(11 466)	1 181 035	44 355
Pears	-	-	-	718 948	4 284
Potatoes	3 750 499	12 561 671	87 319	(22 563)	4 622
Prune-Plum	-	-	-	143 816	-
Rutabagas	-	-	-	600 000	3 654
Sour Cherries	-	1 025 000	1 582 361	291 237	-
Soybeans	-	-	1 634 405	10 902 570	167 238
Sugar Beets	-	-	-	5 926 951	10 179 785
Tomatoes	-	-	337 768	118 075	208
Wheat	27 085	2 331	-	10 800 000	(15 013)
White Beans	1 252 795	(67 799)	-	19 548 002	11 217
Wool	-	-	-	253 018	140 921
Transfers					
to C.D.C.	<u>287 917 924</u>	<u>301 500 000</u>	<u>295 000 000</u>	<u>347 575 918</u>	<u>326 512 556</u>
TOTAL	<u>\$335 724 777</u>	<u>\$439 032 212</u>	<u>\$301 082 648</u>	<u>\$430 872 482</u>	<u>\$410 049 728</u>

Source: Agricultural Stabilization Board Annual Report, 1984/85

\* NOTE: Amounts shown include refunds from previous years' expenditures in the years they were calculated and may thus differ from amounts shown on the statement of expenditures.





TABLE 2

Average Net Income of Farm Tax Filers by Source and by  
Level of Gross Farm Income, Canada, 1983 (\$)

Gross Farm Income (\$)	Number of Farm Tax Filers	Net Farm Income	% Farm Tax Filers Reporting Off-Farm Income	Wages and Salaries	% Farm Tax Filers Reporting Wages and Salaries	Business Income	% Farm Tax Filers Reporting Business Income	Rental Income	% Farm Tax Filers Reporting Rental Income	Investment Income	% Farm Tax Filers Reporting Investment Income	Other Off-Farm Income	% Farm Tax Filers Reporting Other Off- Farm Income	Total Off-Farm Income	Total Income
Nil (or no response)	17,185	205	98.3	15,720	56.6	2,452	14.6	-209	12.1	3,907	77.0	2,725	60.7	24,595	24,800
1 to 2,499	49,885	-1,734	98.8	15,868	67.2	1,705	15.1	-56	13.5	3,333	74.7	3,061	78.3	23,911	22,177
2,500 to 4,999	37,125	-1,374	97.8	14,190	63.0	1,381	12.7	71	11.5	3,437	75.5	2,891	70.6	21,969	20,595
5,000 to 7,499	28,050	-643	96.1	12,025	57.1	1,237	11.9	65	10.1	3,306	75.3	2,788	66.8	19,422	18,778
7,500 to 9,999	21,300	-344	96.1	11,503	54.8	1,314	11.1	53	9.9	3,732	76.4	2,743	67.1	19,346	19,001
10,000 to 14,999	32,495	320	95.6	10,332	50.7	1,068	10.6	51	9.5	3,661	76.8	2,630	65.7	17,743	18,062
15,000 to 19,999	23,700	1,101	95.3	9,265	47.6	873	9.9	99	8.9	3,665	77.1	2,495	64.8	16,395	17,497
20,000 to 24,999	19,170	1,944	94.3	7,814	42.9	884	9.1	143	8.4	3,776	76.3	2,402	63.1	15,020	16,964
25,000 to 29,999	16,110	2,850	94.2	6,987	40.4	736	9.0	72	7.7	3,374	75.5	2,165	62.3	13,333	16,182
30,000 to 34,999	14,220	3,771	93.4	5,969	37.3	717	8.5	136	7.3	3,559	75.8	2,071	61.5	12,452	16,223
35,000 to 39,999	12,590	4,406	93.7	5,236	34.1	693	7.8	121	6.9	3,353	75.6	1,932	61.2	11,335	15,741
40,000 to 49,999	21,890	5,791	93.1	4,330	30.8	640	7.0	94	6.6	3,278	75.4	1,810	61.3	10,152	15,942
50,000 to 74,999	42,430	7,977	92.7	3,175	25.6	479	6.8	69	6.1	3,078	74.0	1,503	62.2	8,304	16,281
75,000 to 99,999	29,130	10,543	92.2	2,290	21.9	410	6.2	48	6.1	2,838	73.3	1,384	63.7	6,970	17,514
100,000 to 149,999	33,310	12,026	91.7	2,019	19.0	405	5.8	-10	6.5	2,816	71.9	1,325	64.1	6,555	18,582
150,000 to 199,999	15,280	12,823	90.8	1,880	17.4	248	5.7	12	7.2	3,075	70.7	1,345	63.9	6,560	19,384
200,000 and over	22,175	12,386	90.4	2,676	15.7	209	6.0	-68	7.6	4,104	72.1	1,585	61.3	8,507	20,892
Average of all Farm Tax Filers	436,110	3,929	94.7	8,234	41.9	946	9.6	35	8.9	3,384	74.8	2,216	65.0	14,815	19,744
Subtotal 0-19,999	209,740	-586	97.1	12,998	58.2	1,414	12.5	15	11.1	3,524	75.9	2,804	67.7	20,754	20,169
Subtotal 20,000-49,999	83,980	3,799	93.7	6,049	37.0	735	8.2	112	7.4	3,469	75.7	2,076	61.9	12,440	16,239
Subtotal 50,000 & over	142,385	10,658	91.8	2,586	20.9	381	6.2	19	6.6	3,127	72.7	1,433	63.0	7,466	18,123

Source: Special Statistics Canada tabulation of Farm Tax Filer data.





income and of that number 41.9% reported average wages and salaries of \$8,234.

Average off-farm income was greater than net farm income for all economic classifications earning under \$50,000 in gross farm income. Those with gross farm income of over \$50,000 reported average net farm income of only \$10,658 and off-farm income of \$7,466 for total income of \$18,123.

Farmers in the \$200,000 and over class of gross farm income reported average net farm income of only \$12,386 and total income of \$20,892, approximately the same as the average total income of those with gross farm sales between \$2,500 and \$5,000. The 1981 Census reports that 123,136 farms reported working an average of 170 days off-farm. Of this number, 45.8% came from farms with capital value of over \$200,000, one-third of which reported capital value over \$500,000.

If it were not for this type of cross-subsidization, many would no longer be in business. This is a sad commentary on the philosophy toward and adequacy of public farm policies. A policy of industrialization and specialization is being implemented which is leading toward underdevelopment of our food production potential, not entirely unlike the policies employed by multinational corporations in a number of Third World countries.

Here, as in the Third World, food production for the export market is stressed for those products in which we are deemed to be "competitive" and hold a "comparative advantage". Even though we may possess the ability to attain greater self-sufficiency, we may instead import in larger quantity products we have the capability of producing. Lamb, sugar, cheese and oilseed products are examples. Farmers around the world are often pawns in the international trade game.

If, in the reorganization of our traditional production base farmers are found "non-competitive", they are often left to fend for themselves or get out of business. The fruit growers of the Okanagan, the sugar beet growers in Alberta and Manitoba, the tomato and tobacco growers in southern Ontario all know the process that leads toward this kind of "progress" and evolution in agriculture. Appendix A illustrates the commodity classifications of our food export-import trade in recent years.



Symptoms of our cheap food policy reflect themselves in other ways as well. Between the years 1969 and 1979, the share of personal disposable income for food expenditure\* in Canada dropped from 18.64% to 17.85% or by 4.2% in a 10 year period. By 1984, the share of personal disposable income for food expenditure had declined to 15.68%, a decline of 12.2% in only 5 years.

The margins of return for farmers in these comparable years indicate that realized net farm income in 1969 represented 30.4% of farm cash receipts. This margin of return shrank to 24.8% in 1979 and was down to 21.4% in 1984. In short, the farmer's share of the consumer dollar spent on food has been steadily declining.

It is against this background of our current agri-food strategy and the directions it has been leading our farm economy that this committee must consider the issues of the domestic price for wheat and the parity pricing of farm products.

#### DOMESTIC PRICE FOR WHEAT:

Our organization welcomed the April 30th announcement of the Prime Minister in which the price range for the establishment of the domestic price for wheat was increased to \$6/bushel minimum and \$11/bushel maximum, (\$220.46/t minimum and \$404.18/t maximum).

The timing of the announcement confirmed that the federal government regards the current crisis in world grain prices triggered by the U.S. Farm Bill as having extremely negative impacts to the future income of grain producers. It further recognized the inadequacy of the present domestic wheat pricing policy with its \$5/bushel minimum and \$7/bushel maximum price levels. If this policy were to remain in place, domestic wheat prices would soon decline to the \$5/bushel level at a time when producers have already been hard-hit by a 19% decline in initial grain price levels set to commence on August 1st, the beginning of the 1986-87 crop year.

The Prime Minister's announcement also had the effect of separating the method for establishing the domestic price for wheat

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\* Agriculture Canada "Food Market Commentary", Vol. 2, No. 4 and Vol. 8, No. 1





from the lockstep relationship it has held to the export price since August, 1980. This allows your committee to bring forth a recommendation for a future increase in the domestic price for wheat based on more equitable criteria.

But the announcement of the new price range in itself is meaningless unless the implied intent to increase domestic wheat prices is acted upon. The current domestic price falls within this range.

It is the recommendation of our organization that the domestic price for wheat be immediately increased to \$10/bushel.

We additionally recommend that:

a) the domestic wheat price be annually adjusted to a cost of production index;

b) only the true cost increase which this new domestic wheat price would represent should be passed on to consumers in the retail prices of domestic flour, bread and other wheat products.

The impact of this policy would result in the increase of the wheat content in a 16 oz. loaf of bread from the present 9.2 cents to 13.6 cents - or by 4.4 cents per loaf. It would increase the price of flour by 7.1¢/lb. or 15.7¢/kg.

We emphasize that only the true cost increase in the price of flour be passed on to consumers by the milling and baking industry. We are of the view that the profit margins of the domestic milling industry are sufficiently large so that the wheat price increase need not be used as the pretext for additional profit making. Net profit per tonne of wheat milled in Canada is apparently about 4 times as high as in the United States. Serious questions have been raised about the competitiveness of our domestic milling industry. (See Appendix B)

We estimate that about 75 million bushels of wheat would be affected by this change in pricing policy and that the average return to producers from domestic wheat sales would increase by approximately \$1500.





Should the committee recommend instead that the increased domestic wheat price be paid directly as a consumer subsidy, approximately \$225 million would need to be transferred to the Canadian Wheat Board and Eastern Canadian grain marketing agencies for distribution to producers.

With respect to actual distribution to producers, we recommend it be based on a formula such as \$10.00/bushel on the first 500 bushels which would proportionately benefit smaller producers and be less likely to influence acreage patterns seeded to wheat.

In advancing the recommendation for a \$10/bushel domestic price for milling wheat, we are not implying that a sufficient remedy has been prescribed to correct the very serious income deficiency farmers are experiencing as a consequence of the sharp drop in initial and export grain prices. This issue still remains to be addressed.

#### THE PARITY PRICING ISSUE:

Some farm organizations have for decades supported the principle of applying parity pricing concepts in determining the value of farm products.

The present method of determining "value" of most farm products is still modelled on "supply-demand" principles which assume that the marketplace is the best allocator of supply. It is where buyer and seller theoretically meet in a competitive climate regulated by forces of supply and demand and where buyer and seller have approximately equal market influence.

The theory breaks down when there are many sellers competing for a market that is controlled by very few buyers, as is the case in the selling of farm products. In this situation, it becomes much more pressing upon a producer to sell than it does upon a buyer to purchase the product of any particular producer.

Consequently, the producer of farm products has become a "price taker". Competition destroys profits which leads toward the elimination from production of producers who cannot economically survive the competitive price cutting required to gain a share of the



market. This competitive climate is in turn theoretically intended to leave in production only the most efficient who are able to produce for less cost.

It is a policy that is compatible with the cheap food policy governments around the world pursue. At the turn of the century, 50 per cent of Canada's population lived in the rural areas. Today, it is about 4 per cent. As technology has been applied to substitute for labour, the movement of people from the rural to the urban areas has provided labour for industry.

While rural areas once held considerable political power, the movement from the land has decidedly concentrated political power in the urban areas where populations are consumers. Consumers want cheap food.

Are farmers entitled to prices which will return average costs of production and a fair return on capital labour and management? No one should deny to farmers what others in society take for granted. That farmers on average do not receive prices for farm products which provide them with this kind of return is a matter of record.

We offer no precise definition of what price levels would attain "parity", but Table 3 illustrates that farmers do not have it now.

TABLE 3:

**Average Capital Value and Realized Net Income Farms  
in Canada - 1984**

<u>No. of farms</u> <u>1981 Census</u>	<u>Capital Value</u> <u>1984 Farms</u> <u>millions \$</u>	<u>Average</u> <u>Capital Value</u> <u>\$/Farm</u>	<u>Average/Farm</u> <u>Realized Net</u> <u>Income - 1984</u>
318,361	123,033	386,457	13,613

Sources: 1981 Census of Canada. CANSIM 000250-000259

If an arbitrary allowance of only \$20,000 per farm operator is applied for labour and management, it is evident that the income shortfall from average 1984 Realized Net Income was \$6,387 and no return on capital





was received. This represents shortfalls for labour and management of \$ 2 billion and \$12.3 billion to capital if a simple return on capital of 10 per cent is allocated.

Farm cash receipts in 1984 were \$20.3 billion. It would appear farmers were shortchanged by \$14.3 billion if they were to receive a very modest return on capital and labour and management of 10% and \$20,000 respectively. In other words, they received about 60% of what their farm products were worth!

Approximately 50 per cent of the value of our farm products are exported. If it is conceded that we must be prepared to sell competitively on the world market, the government would be confronted with at least two choices. It could subsidize exports by paying producers the shortfall between world prices and parity prices or it could raise domestic prices to accomplish the same objective.

In our view, the implementation of parity prices for farm products is both possible and justified, but some radical changes to current public policies would be required. These include:

1. The political will must be demonstrated to abandon the cheap food policy which is the central objective of the Canadian agri-food strategy.

2. Reorganization of our production and marketing systems would be required. Supply management would replace the current chaotic and obsolete method of marketing in the hopes of being able to get a profitable return out of the marketplace. Value of farm products would be pre-determined on the basis of annually negotiated pricing formulas for farm products. Farmer compliance to production targets would be required.

3. Government could establish the basic prices for farm products sold on the domestic market and determine whether and to what extent it wished to subsidize consumers as well as the levels of deficiency payments for losses experienced in export markets.

4. Imports and exports of farm products would be controlled. The use of our domestic markets by large corporations as a dumping ground for cheap foreign produced and/or subsidized exports would be





controlled.

5. Current federal policy goals for free trade and deregulation would need to be immediately abandoned. There is no doubt in our minds that the pursuit of these policy goals are diametrically opposed to the concepts of correcting the marketing and pricing abuse and exploitation that has beset the farm community for generations.

We urge your committee recommend fundamental changes to farm commodity pricing and marketing policies and structures which will result in farmers being paid prices for their products based on actual average costs of production and fair returns on capital, labour and management.

It may be considered by some that the concept of proper returns to farmers for their production efforts is a "pie-in-the-sky" idea that cannot be taken seriously. We remind you that farmers are increasingly confronted by the reality of new artificially-produced food products competing for the consumers' food dollar. We are on the threshold of futuristic analog foods to serve as replacers for various kinds of natural foods such as meat, cheese, eggs and even honey.

We submit the corporations who are marketing these products assure they are profitable to themselves.

Government, including this committee, must at some point face the complications of policy decisions that go beyond the mere economics of food production. It inevitably will be confronted by the choice of maintaining a farming industry or opting for greater industrialization of the food industry.

People are important!

All of Which is Respectfully  
Submitted by:

NATIONAL FARMERS UNION



APPENDIX A

TOTAL EXPORTS AND EXPORTS OF AGRICULTURAL PRODUCTS TO ALL COUNTRIES BY  
MAJOR GROUPING, AVERAGE 1975-79 AND CALENDAR YEARS 1980-84

EXPORTATIONS TOTALES ET EXPORTATIONS DE PRODUITS AGRICOLES A TOUS LES  
PAYS PAR PRINCIPAUX GROUPES - MOYENNE 1975-1979 - ANNEES CIVILES 1980-1984

Commodity	Average 1975-1979  Moyenne	1980	1981	1982	1983	1984	Denrée
- thousand dollars - - milliers de dollars -							
<b>All commodities</b>	46 197 402	74 445 976	81 336 731	81 824 824	88 506 249	109 543 473	<b>Total de toutes les denrées</b>
<b>Agricultural products</b>	4 594 573	7 786 296	8 783 431	9 304 380	9 505 002	10 306 570	<b>Produits agricoles</b>
<i>Grains</i>	2 473 399	4 513 183	4 907 267	5 385 418	5 650 134	5 532 642	<i>Céréales</i>
Wheat	1 945 216	3 861 056	3 727 884	4 288 422	4 647 559	4 709 161	Blé
Barley	442 244	404 167	842 955	886 297	814 600	636 118	Orge
<i>Grain products (food)</i>	166 727	210 665	294 507	194 912	213 796	263 433	<i>Produits céréaliers (alim. humaine)</i>
Hard spring wheat flour	109 331	113 759	186 752	75 344	80 694	114 786	Farine de blé dur du printemps
<i>Animal feeds</i>	120 776	184 748	199 851	213 609	250 237	246 448	<i>Aliments du bétail</i>
<i>Oilseeds</i>	493 351	645 439	797 938	648 049	688 743	911 125	<i>Oléagineux</i>
Flaxseed	103 012	137 251	226 386	138 096	186 321	167 637	Graine de lin
Canola/rapeseed	344 113	421 901	464 520	418 671	433 232	648 456	Graine de colza/canola
<i>Oilseed products</i>	88 035	202 877	206 424	156 789	127 100	265 023	<i>Produits oléagineux</i>
Oilcake and meal	27 214	65 246	58 079	37 705	42 132	65 158	Tourteaux
Canola/rapeseed oil	50 574	118 783	113 776	85 178	56 824	170 162	Huile de Colza/canola
<i>Animals, live</i>	148 956	228 840	200 751	298 417	309 533	486 921	<i>Animaux sur pied</i>
Cattle	131 470	188 469	168 268	238 195	228 043	269 951	Bovins
Live swine	11 958	29 531	23 503	53 408	71 645	202 213	Porcs sur pied
<i>Meats</i>	266 108	514 406	620 464	775 957	696 597	750 405	<i>Viandes</i>
Beef and veal, fresh, chilled or frozen <sup>a</sup>	59 782	123 242	142 879	157 863	150 471	190 624	Boeuf et veau frais, réfrigéré ou congelé <sup>a</sup>
Pork, fresh or frozen <sup>a</sup>	135 595	276 557	349 496	483 395	425 865	436 629	Porc frais ou congelé <sup>a</sup>
Fancy meats, (offal) fresh or frozen	23 155	48 353	57 367	61 183	47 780	59 474	Viandes de fantaisie, (abats) fraîches ou congelées
Bovine, fresh or frozen	9 126	20 693	22 846	21 978	16 661	18 248	Boeuf, frais ou congelé
Pork, fresh or frozen	13 719	27 359	34 067	38 782	30 818	40 817	Porc, frais ou congelé
<i>Other animal products</i>	272 415	421 843	390 439	404 354	360 634	478 147	<i>Autres produits d'origine animale</i>
Furs, hides, and skins	171 550	274 399	233 407	251 710	221 489	284 930	Fourrures, cuirs et peaux
<i>Dairy products</i>	83 586	159 733	209 350	280 434	238 809	241 229	<i>Produits laitiers</i>
Cheese	6 300	10 726	21 305	22 346	20 430	23 459	Fromage
Skim-milk powder	51 999	46 491	82 920	142 717	80 802	69 450	Lait écrémé en poudre
Evaporated milk	16 271	87 136	86 191	94 008	91 347	118 752	Lait concentré
<i>Poultry and eggs</i>	21 814	45 034	52 654	41 738	40 285	49 457	<i>Volaille et oeufs</i>
<i>Fruits and nuts</i>	48 949	80 340	104 456	121 215	105 098	105 189	<i>Fruits et noix</i>
Apples, fresh	19 418	33 250	39 966	42 526	45 160	31 396	Pommes fraîches
Blueberries, frozen	8 822	16 896	26 063	27 149	21 629	18 869	Bleuets congelés

(continued)  
(à suivre)



TOTAL EXPORTS AND EXPORTS OF AGRICULTURAL PRODUCTS TO ALL COUNTRIES BY  
MAJOR GROUPING, AVERAGE 1975-79 AND CALENDAR YEARS 1980-84 (Concluded)

EXPORTATIONS TOTALES ET EXPORTATIONS DE PRODUITS AGRICOLES A TOUS LES  
PAYS PAR PRINCIPAUX GROUPES - MOYENNE 1975-1979 - ANNEES CIVILES 1980-1984 (Fin)

Commodity	Average 1975-1979  Moyenne	1980	1981	1982	1983	1984	Denrée
- thousand dollars - - milliers de dollars -							
<i>Vegetables (excluding potatoes)</i>	82 146	160 408	207 781	187 530	208 922	210 061	<i>Légumes (sauf pommes de terre)</i>
<i>Potatoes and products</i>	35 555	56 176	72 254	92 675	80 160	97 234	<i>Pommes de terre et dérivés</i>
<i>Seeds for sowing</i>	28 248	36 308	31 258	34 426	50 200	29 585	<i>Graines de semence</i>
<i>Maple products</i>	9 898	15 396	17 789	19 158	20 990	23 742	<i>Produits de l'érable</i>
<i>Sugar</i>	41 022	11 454	75 346	47 997	41 081	41 907	<i>Sucre</i>
<i>Tobacco, raw</i>	87 126	74 302	130 481	120 806	103 768	110 779	<i>Tabac brut</i>
<i>Tobacco, bright, flue-cured</i>	81 856	68 586	122 595	114 006	94 822	101 811	<i>Tabac jaune séché à l'air chaud</i>
<i>Vegetable fibres</i>	6 402	8 416	12 493	19 289	20 824	16 917	<i>Fibres végétales</i>
<i>Plantation crops</i>	12 035	5 424	13 659	21 939	20 431	53 999	<i>Récoltes de plantation</i>
<i>Other agricultural products</i>	110 027	211 307	238 271	239 667	277 661	392 327	<i>Autres produits agricoles</i>
<i>Peat and other mosses</i>	39 796	69 516	66 335	75 718	73 644	87 084	<i>Tourbe et autres sphaignes</i>

<sup>a</sup>Excludes fancy meats (edible offal)

Ne comprend pas les viandes de fantaisie (abats)

TOTAL IMPORTS AND IMPORTS OF AGRICULTURAL PRODUCTS FROM ALL COUNTRIES  
BY MAJOR GROUPING, AVERAGE 1975-79 AND CALENDAR YEARS 1980-84

IMPORTATIONS TOTALES ET IMPORTATIONS DE PRODUITS AGRICOLES EN  
PROVENANCE DE TOUS LES PAYS PAR PRINCIPAUX GROUPES - MOYENNE 1975-1979 -  
ANNEES CIVILES 1980-1984

Commodity	Average 1975-1979	1980	1981	1982	1983	1984	Denrée
	Moyenne						
- thousand dollars - - milliers de dollars -							
All commodities	45 567 823	69 273 844	79 481 715	67 855 703	75 586 566	95 842 401	Total de toutes les denrées
Agricultural products	3 656 143	5 128 247	5 609 840	5 055 695	5 185 455	6 110 880	Produits agricoles
Grains	116 052	233 271	263 432	165 574	118 364	163 461	Céréales
Corn	79 989	169 373	194 588	103 328	56 729	89 334	Maïs
Grain products (food)	67 632	94 923	110 376	124 651	148 983	200 196	Produits céréaliers (alim. humaine)
Bakery products	33 352	43 861	50 276	57 683	66 476	78 595	Produits de boulangerie
Animal feeds	39 594	58 884	64 046	77 915	76 394	85 381	Aliments du bétail
Oilseeds	148 043	200 334	239 384	196 619	168 943	179 781	Oléagineux
Soya beans	94 037	141 901	115 000	128 109	95 872	98 562	Fèves de soja
Oilseed products	232 400	267 774	267 039	242 387	284 238	384 970	Produits oléagineux
Oils	131 574	148 227	143 483	129 724	152 909	211 099	Huiles
Oilcake and meal	90 079	113 092	119 735	108 457	127 357	165 913	Tourteaux
Animals, live	56 878	87 522	169 862	99 935	95 516	57 697	Animaux sur pied
Cattle	37 070	60 203	135 176	70 909	73 868	36 411	Bovins
Meats	297 260	287 025	301 139	296 563	320 691	378 684	Viandes
Beef and veal, fresh, chilled or frozen	124 828	177 294	178 836	175 901	189 289	277 194	Boeuf et veau, frais, réfrigéré ou congelé
Pork, fresh or frozen	108 875	30 637	42 169	37 779	36 491	29 795	Porc frais ou congelé
Mutton and lamb, fresh or frozen	24 303	37 864	31 173	33 279	37 861	21 935	Mouton et agneau frais ou congelé
Other animal products	225 145	319 846	340 450	277 992	300 943	347 001	Autres produits d'origine animale
Hides, skins and furs	131 879	196 494	207 148	176 967	193 346	222 215	Fourrures, cuirs et peaux
Wool, raw	35 692	46 024	45 828	33 457	33 435	33 736	Laine brute
Dairy products	67 672	87 824	93 960	100 815	101 697	112 887	Produits laitiers
Cheese	59 002	74 667	82 654	89 035	87 352	96 545	Fromage
Poultry and eggs	55 467	56 321	70 121	74 657	77 967	110 134	Volaille et oeufs
Chickens, fresh or frozen	14 558	16 962	22 085	23 500	29 084	51 256	Poulets, frais ou congelés
Shell eggs <sup>a</sup>	18 465	17 505	17 939	18 142	14 729	19 387	Oeufs en coquille <sup>a</sup>
Fruits and nuts	694 700	1 008 436	1 158 716	1 246 699	1 231 452	1 437 073	Fruits et noix
Citrus, fresh or processed	194 643	279 256	317 891	346 503	324 870	403 238	Agrumes frais et transformés
Bananas	69 069	98 451	113 038	119 664	120 841	124 075	Bananes

(continued)  
(à suivre)

TOTAL IMPORTS AND IMPORTS OF AGRICULTURAL PRODUCTS FROM ALL COUNTRIES  
BY MAJOR GROUPING, AVERAGE 1975-79 AND CALENDAR YEARS 1980-84 (Concluded)

IMPORTATIONS TOTALES ET IMPORTATIONS DE PRODUITS AGRICOLES EN  
PROVENANCE DE TOUS LES PAYS PAR PRINCIPAUX GROUPES - MOYENNE 1975-1979 -  
ANNEES CIVILES 1980-1984 (Fin)

Commodity	Average 1975-1979  Moyenne	1980	1981	1982	1983	1984	Denrée
- thousand dollars - - milliers de dollars -							
<i>Vegetables (excluding potatoes)</i>	360 905	469 311	600 629	597 404	624 115	692 341	<i>Légumes (sauf pommes de terre)</i>
Fresh vegetables	241 915	324 190	411 192	420 529	455 229	497 887	Légumes frais
<i>Potatoes and products</i>	28 875	29 511	50 539	37 558	35 563	54 172	<i>Pommes de terre et dérivés</i>
<i>Seeds for sowing</i>	35 921	55 131	62 516	51 270	53 098	57 212	<i>Graines de semence</i>
Seed corn	6 038	12 842	18 563	11 546	11 052	9 931	Semences de maïs
<i>Sugar</i>	294 448	542 881	506 534	271 137	228 473	228 051	<i>Sucre</i>
<i>Tobacco, raw</i>	9 584	35 441	7 188	13 462	25 133	9 826	<i>Tabac brut</i>
<i>Vegetable fibres</i>	85 997	132 821	139 976	82 268	110 388	131 547	<i>Fibres végétales</i>
Cotton, raw	76 478	123 000	131 542	76 131	103 551	122 302	Coton brut
<i>Plantation crops</i>	576 014	788 277	729 760	655 813	688 387	886 334	<i>Récoltes de plantation</i>
Coffee and products	349 404	487 604	440 639	406 841	401 301	474 196	Café et dérivés
Tea and products	52 215	64 957	62 355	63 146	68 514	102 745	Thé et dérivés
<i>Other agricultural products</i>	263 555	372 715	434 174	442 976	495 109	594 133	<i>Autres produits agricoles</i>
Spices, flavourings, and confectionery	97 728	130 586	142 237	162 155	177 143	231 093	Epices, condiments et confiseries

\*Includes hatching eggs  
Comprend les oeufs d'incubation





APPENDIX B

# What's wrong with Canadian flour millers?

BY COLIN CARTER

Data on flour prices indicates one of three things: Either the price of wheat paid by millers in Canada is excessive. The flour milling industry in Canada is a high cost-inefficient industry. Profits in the Canadian industry are high.

For instance, during most of last year, flour millers in Japan were paying close to \$11 (Cdn.) a bushel for wheat, while Canadian mills were only paying a little over \$6.

It only stands to reason that the price of flour should have been much lower in Canada, but this was not the case. According to the U.S. department of agriculture, one kilogram of flour sold at the retail level in Canada for \$1.01 (U.S.) in May, 1985, and then \$1.15 in November of the same year.

At the same time, Tokyo flour prices were \$0.79 in May and \$0.86 in November (see Table 1). In fact, the information in Table 1 also shows that the price of flour in Canada tends to be much higher than in many other countries of the world. For example, in London, England, the price of flour was only 31 per cent of the Ottawa price in 1983-85.

Since these are retail prices, it is useful to compare them with another commodity, such as steak. Interestingly, the opposite situation prevails in beef prices. The figures show that the price of steak is lower in Ottawa than in Paris, Tokyo, Washington, D.C. or London. Therefore, the apparent price anomaly in flour cannot be attributed to either the choice of Ottawa as a market or the state of competition in retail food marketing.

The Canadian millers are quick to blame the Canadian Wheat Board's 2-price wheat

policy for high flour prices, but the truth is domestic wheat prices to millers were at world levels during the entire 1983-85 period.

The millers have been especially critical of the CWB's domestic wheat pricing policy in the past few months. This is primarily because the board increased domestic milling wheat prices from \$5.95 to \$6.92 a bushel in January, 1986. This increase was brought on by the unusually high world premiums for top quality wheat and a weaker Canadian dollar.

Allan James, chairman of the Canadian National Millers Association and executive vice-president of Maple Leaf Mills Ltd., was critical of the board at the recent annual Western Canadian Wheat Growers Association meeting. He argued that higher wheat prices in Canada would impact negatively on Canadian consumers, and result in lower wheat usage and overall jobs for Canadians.

This is a classic case of the pot calling the kettle black. One bushel of wheat produces about 20 kgs of flour. Therefore, the value of wheat in one kilogram of flour would be about \$0.35 with the price of wheat at \$6.92. An increase of the price of wheat by \$0.97 should translate into an increase of only \$0.05 per kg of flour.

Such a small price change would not result in lower wheat usage and fewer jobs in the milling industry. The argument put forth by the millers is not very convincing. The industry has a strong tendency to increase wholesale flour prices from year to year, irrespective of whether wheat prices are going up or down.

## Milling industry concentrated

Measured by any standards, the Canadian milling industry is highly concentrated. This means flour sales are controlled by a small number of firms. The largest four companies (Maple Leaf Mills Ltd., Ogilvie Mills Ltd., Robin Hood Multifoods and Phenix Flour Ltd.) control over 70 per cent of the capacity in the industry.

By comparison, in the U.S., only about 50 per cent of the capacity is owned by the largest four mills. Clearly, the Canadian industry is in a better position to control supply and set the price.

In the U.S. industry, there has been a significant amount of consolidation in recent years. Mills have become larger and more efficient. This has not taken place in Canada where mills tend to be smaller and less efficient.

The pricing and cost structure of the Canadian industry not only affects Canadian farmers and flour consumers, but it also impacts on the ability of the industry to compete internationally. In the mid-1960s, the Canadian industry exported over one million tonnes of flour (in wheat equivalent) and accounted for about 18 per cent of the world flour trade. Twenty years later, exports are below 500,000 tonnes and Canada's market share has fallen to 11 per cent.

Some of the decline in exports is no doubt attributable to highly subsidized European flour exports. The U.K. was once an important destination for Canadian flour, but this is no longer true. However, Canadian flour exports would be larger with a more efficient in-

**TABLE 1 — WORLD RETAIL FOOD PRICE COMPARISONS**  
(in U.S. dollars per kg)

Date	Ottawa		Paris		Tokyo		Washington, D.C.		London	
	Flour	Steak	Flour	Steak	Flour	Steak	Flour	Steak	Flour	Steak
November, 1983	0.93	6.69	1.38	7.89	.82	31.20	.46	6.48	.34	11.82
May, 1984	0.93	6.76	0.64	7.05	.78	30.70	.49	7.69	.34	11.26
November, 1984	1.04	7.45	0.61	6.63	.73	28.59	.83	7.91	.20	6.64
May, 1985	1.01	6.54	0.56	7.23	.79	25.92	.62	8.06	.31	9.53
November, 1985	1.15	5.88	0.78	9.47	.86	30.45	.57	8.80	.37	11.39
Average	1.01	6.66	0.79	7.65	.80	29.37	.59	7.79	.31	10.13
Average as % of Ottawa	100	100	78	115	79	441	58	117	31	152

Source: *World Production and Trade Weekly Roundup* — USDA — FAS.

**TABLE 2 — FLOUR MILLING FINANCIAL  
DATA, 1982 — CANADA AND THE U.S.**  
(\$ U.S.)

	Canada	U.S.
	(\$)	(\$)
Net sales	636,033,000	2,469,153,000
Cost of goods sold	500,720,000	2,331,617,000
Gross profit	135,312,000	137,536,000
General sales and administration costs	86,985,000	94,012,000
Net profit*	48,326,000	43,524,000
Net profit* as % of sales	7.6%	1.8%
Million tonnes of wheat ground	2.3	11.6
Net profit* per tonne of wheat	\$21.01	\$3.75

\* Before income taxes.

Source: Canadian data — derived from Statistics Canada. CAT 32-228. *Flour and Breakfast Cereal Products Industry*. U.S. data — Ray Goldberg (editor), *Research in Domestic and International Agribusiness Management*, 1983. JAI Press.

dustry than currently exists.

It is revealing to compare profit margins in the Canadian industry with those in the U.S. A study on selected firms accounting for 65 per cent of the capacity in the U.S. industry was recently conducted by Ray Goldberg of Harvard University. His estimates are compared with data for the entire Canadian flour milling industry in Table 2.

There are some striking differences between the two countries. The U.S. industry is

characterized by low margins. In contrast, there is a high level of profitability in the Canadian industry.

The estimates show that, in 1982, net profit before taxes was 7.6 per cent of sales in Canada compared to only 1.8 per cent in the U.S. Another way of looking at this profit margin is per tonne of wheat ground. The profit margin in the Canadian industry is approximately \$20.75 a tonne of wheat ground while, in the U.S., it is \$3.75.

To summarize, the Canadian flour milling industry enjoys a high level of profits compared to the U.S. industry. This comes about because a small number of firms control the majority of the flour sales.

The industry is protected from competition through import restrictions on flour and flour products. The Vancouver region is the only market in Canada which is permitted to import flour products on a large scale.

The upshot of this evidence is that Canadian consumers are paying too much for flour and the industry's costs are too high to permit it to effectively compete on the international market. As a result, Canadian wheat farmers are losing out in both the domestic and world flour markets.

A free trade arrangement between Canada and the U.S. is being promoted in both Ottawa and Washington. This will result in either a long overdue rationalization of the Canadian flour milling industry, or a situation where Canada becomes a net importer of flour and flour products. Preferably, it will be the former that occurs.

Colin Carter is a professor of agricultural economics at the University of Manitoba.













